



Office of Audit Services
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December 14, 2010

AGENDA ITEM 3b

TO: MEMBERS OF THE FINANCE COMMITTEE

- I. SUBJECT:** Office of Audit Services Quarterly Status Report
- II. PROGRAM:** Audit Services
- III. RECOMMENDATION:** Information Only
- IV. SUMMARY:**

In accordance with the Finance Committee's Audit Resolution Policy and Procedures, the Office of Audit Services presents its Quarterly Status Report of audit activity. The following provides the status of projects and activities as of September 30, 2010.

1. Status of projects

Table A – Summary of Activities

Type of Project	2009-10 Audit Plan	Projects In Progress	Projects Complete
Internal Audit, Consulting and Follow-Up (Attachment 5A)	53	24 ^A	7 ^A
Public Agency Reviews (Attachment 5B)	79	47 ^A	23 ^A
Financial Statement and Real Estate Contract Audits (Attachment 5C)	n/a	7 ^A	2 ^A

^A - Includes audits started in prior fiscal year as shown in the Attachments

Table A above provides a summary of the projects by categories.

- Internal audit projects and consulting assignments focus on compliance, and the effectiveness and efficiency of CalPERS operations, systems, policies, and procedures. Internal audit also includes audits of health maintenance organizations contracting with the System, compliance audits

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- of health care third-party administrators, and audits of external providers of investment-related services.
- Field reviews include compliance reviews of employers belonging to the System.
- Financial statement and real estate audits are contract audits performed by external auditors.

2. Status of findings

Figure 1 - Current Year Open Findings

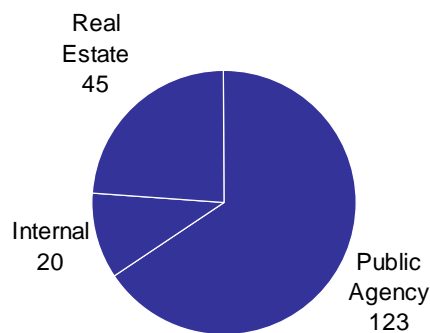
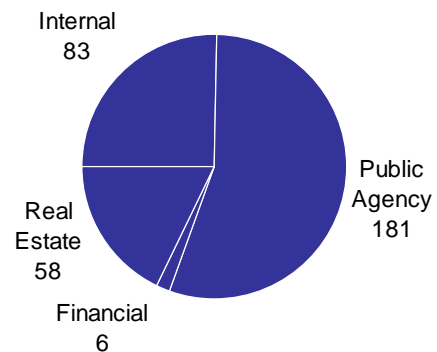


Figure 2 - Prior Years Open Findings



The charts above provide a summary of the types of open findings. Attachment 1A provides a dashboard status of the audit findings. Detail on all findings is available on file in the Office of Audit Services, upon request, and has been distributed to all appropriate divisions.

HIPAA-Related Findings

At the request of the Finance Committee, we have included the status of the Health Insurance Portability and Accountability Act (HIPAA) findings in Attachment 4A of this agenda item.

Financial Statement Audit Findings

At the request of the Finance Committee, we have included the status of the prior year observations in Attachment 4B of this agenda item.

Current Year Findings

- There were 192 public agency findings issued during this first quarter and 69 findings, or 36 percent, have been addressed and are complete. Attachment 2A provides a summary of significant public agency review findings for this first quarter.
- There were 75 real estate audit findings issued during this first quarter and 35 findings, or 40 percent, have been addressed and are complete.

Attachment 2B provides a summary of significant real estate audit findings for this first quarter.

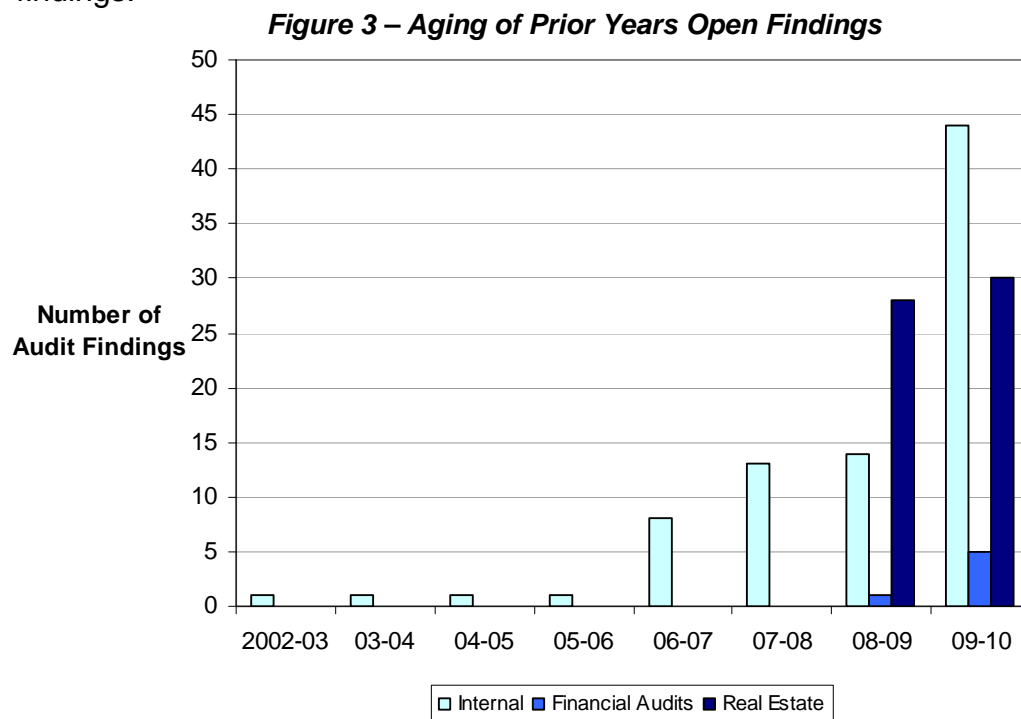
- There were 23 internal audit findings issued during this first quarter and two findings have been addressed and are complete. Attachment 3A provides an executive summary of internal audits completed this first quarter.

3. Corrective action plans

In accordance with the Audit Resolution Policy and Procedures, corrective action plans are required for findings that remain open more than one year or 90 days for significant findings. Several corrective action plans have passed the divisions' target completion date for resolution and other corrective action plans are overdue.

4. Finding trends

The following graph provides an aging summary of the prior years' audit findings.



- Consistent with the Audit Resolution Policy and Procedures, the Office of Audit Services continues to work with management to resolve all outstanding issues.

Contracting Public Agency Reviews – common issues and examples:

- *Incorrect reporting of compensation* (non-reportable compensation such as auto allowance reported, reportable compensation such as uniform allowance not reported, special compensation not reported correctly).

Specifically, from the 23 reviews completed during this first quarter, we found 21 instances of public agencies reporting compensation that was not reportable. The most common misreported pays were leave cashouts and car allowances.

- *Health eligibility* (health enrollment and declaration of health coverage forms not on file, documentation to support dependent eligibility not provided, divorce decrees not on file).
- *Retirement contributions/payroll information not reported timely* (retirement contributions not remitted timely, payroll reports not submitted timely).

Internal Audits – common issues and examples

- *Documentation* (absent, incomplete, or outdated documentation supporting transactions, reviews or contracts). Inadequate documentation increases the risk of ineffective program oversight and could also hinder succession planning efforts.
- *Processes* (absent, incomplete, or outdated processes or implementation issues). Inadequate processes increase the risk of non-compliance with laws, regulations, and policy. Inadequate processes could also hinder achievement of business objectives.

Real Estate Compliance Review – common issues and examples:

- *Fees and unallowable costs* (charging for fees and costs not specified, correctly calculated, or allowable by agreement)
- *Vendor contracting* (improper bidding or unsubstantiated bids for work contracted, no executed contracts on file, or lack of required clauses)
- *Accounting and reporting* (weaknesses in accounting systems, inadequate reconciliations, untimely submission of reports)

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V. STRATEGIC PLAN:

This item is not a specific product of the strategic plan, but is required by the Finance Committee's Audit Resolution Policy and Procedures and the Office of Audit Services Charter.

VI. RESULTS/COST:

This is an information item and does not result in any risks/costs. Staff is available to answer any questions that the Finance Committee may have.

MARGARET JUNKER, Chief Auditor
Office of Audit Services

PETER H. MIXON
General Counsel

Attachments